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## Our Next Alternative Currency: Cash?

by Kenneth Douglas, GM and EVP Social Gaming and Commerce, Twitpay  
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### Introduction

Alternative currencies were initially considered to be anything other than locally accepted paper and coin tender. By the 1980s, credit cards became a standard payment mechanism and consumer credit a currency in and of itself. In the economy of 2011, electronic currencies are so mainstream that their classification as alternative is questionable.

With the fusion of online shopping and social media platforms like Facebook and Twitter, we are moving away from tangible currency at a blinding speed. When will the day come when cash and credit cards are actually the alternative options? What effect will social media, mobile phones and yet-to-be-seen new technologies have on what we consider to be alternative currencies? This article will explore the most popular alternative currencies in American society today, the implications of emerging and virtual currencies and the historical requirements for new payment methods to reach critical mass.

### *Leading Alternative Currencies and Payment Systems*

#### Stored-Value Cards

Stored-value cards are used for a wide variety of applications, including gift cards, public transit fare cards and payroll. They allow value to be attributed to an anonymous card for use in a specific industry or an individual company. Alternatively, prepaid cards can be vendor specific or can be authorized by a credit card association and redeemed at any accepting merchant.

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### Airline Miles/Reward Points

Service providers, such as airlines, rental car companies and all major credit card providers, offer consumers a loyalty program based on reward points that can then be applied to purchase goods and services from the provider or one of its partners. The reward points are redeemable at a wide variety of merchants and have produced a hidden sub-economy, in which elaborate partner webs trade points to share with their customers.

### Electronic Money

With the advent of direct deposit, online banking and service providers like PayPal, electronic money can be transferred without real tangible tender ever coming into play. As a result of the convenience and speed of these methods, a large number of service providers have emerged to facilitate entirely electronic transactions.

### Emerging Alternatives

#### Mobile Payments

For the past few years, mobile payments have been in the limelight. However, a truly viable solution has yet to emerge. From SMS text transactions to smartphone-based POS systems to Near Field Communication (NFC) solutions to custom applications, everyone is trying to figure out the secret to providing a mainstream mobile payment technology. It is likely that 2011 will be the year that one or more technologies take the lead and begin to be utilized by the public.

#### Social Media

A highly popular but largely untapped venue for payment processing is social media. While social media has taken the marketing, communications and public relations worlds by storm, relatively few options have emerged for social media payments. Social media users replicate every other aspect of their lives on Facebook, Twitter, Tumblr and LinkedIn. Financial transactions are an obvious next step in the evolution of this medium. Major brands, like JC Penney, are already hosting their entire catalogs on Facebook, and Wal-Mart uses the handle @WalmartSpecials to promote deals over Twitter. Consumers will soon be able to use Facebook Credits and Twitpay to buy everything from restaurant gift cards and virtual cows to home electronics and clothing.

#### Virtual Currency

Social networking and social gaming have spawned a new sort of economy – a virtual economy. Whether it's Farm Cash in FarmVille, Zeevex tokens in a variety of games or Facebook Credits (which will soon be accepted for most any virtual or real good), virtual currencies are only beginning to show their true power. Though most virtual currency is purchased with traditional or electronic currency, the exchange rate is not equal. Virtual currencies can be both bought and earned by taking advantage of marketing offers and performing tasks within virtual communities.

#### Critical Mass

The ultimate key to achieving critical mass in the world of alternative currencies is reaching a crucial balance between users and accepting merchants. In order to do so, additional value or convenience must be provided on each side of the equation. Benefits to the user can include any number of the following:

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### Ease of Purchase

Most alternative currencies and payment options provide an easier payment process to the individual purchaser than physical cash or credit cards. In the case of PayPal, a one-time registration and connection to an existing payment account allows the user to make online purchases from most online merchants by simply entering a single user name and password rather than entering all credit card details each time a purchase is made.

Amazon Payments has taken this tactic one step further by giving users the option to set up a PayPhrase – a single, secure phrase that can be typed in at checkout for a variety of online merchants and is already associated with a payment account and shipping information.

### Promotional Offers

Most new alternative currencies utilize promotional offers to attract their initial users, as well as to keep them coming back. These offers can include simple discounts where a disproportionate amount of the alternative currency can be purchased for a given amount of traditional currency.

Offers can also include invitations to use partner merchants in exchange for a given amount of alternative currency. Facebook Credits and social gaming virtual currencies are well known for these strategies, but airline miles and even prepaid card providers have been using these techniques for decades. For example, a brand like Netflix might contract with Facebook to offer free or discounted Facebook Credits to those users who agree to sign up for Netflix. In essence, a currency is acquired in exchange for an unrelated action rather than through a currency conversion.

### Anonymity

In the information age, privacy is an ongoing concern. Despite the wide acceptance of online shopping, many individuals are still concerned about maintaining their financial privacy online. Both stored-value cards and many electronic transaction providers can provide anonymous or heightened privacy options for online purchases.

With many merchants now collecting individual-specific purchase data to determine consumer

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behavior, alternative currencies can also serve as a buffer to this type of data mining. Additionally, for individuals who are not able or choose not to use a bank, alternative currencies can be a saving grace.

### Gift Benefits

Most alternative currencies can be transferred easily to another person in the form of a gift, allowing the recipient to purchase the gift of their choice.

### Access to New Channels

There are some places where cash just isn't good enough anymore. To make a purchase online or even over the phone, a credit card, debit card or one of a number of alternative currencies is required. For an individual who does not want to use consumer debt or is not a banking customer, alternative currencies may be the only way for them to participate in these channels.

On the other hand, we are now seeing alternative currencies creating new channels of commerce. Just as online shopping didn't exist 20 years ago, the virtual goods economy didn't exist five years ago. Two years ago, transactions couldn't occur over social media. As new platforms emerge, new currencies and payment mechanisms will evolve to monetize them.

Benefits to the accepting merchant can include any number of the following:

### Lower Transaction Costs

The No. 1 reason a merchant will choose to accept a new payment method or currency is because it will reduce overall transaction costs. Now, this may sound like a race to the bottom, and in some cases, it is. However, especially in virtual channels where the real cost of goods sold is near zero, transaction costs charged by the one or two existing payment providers can be quite high. Any newly emerging technology has room to provide a benefit in this space.

### New Customer Acquisition

Typically, the burden of obtaining new customers falls to the merchant. The decision of which

“ For individuals who are not able or choose not to use a bank, alternative currencies can be a saving grace. ”

currencies and payment methods to accept is centered around preventing any drop-off of those customers. However, in new channels, acceptance of a new currency can often bring in new customers. For example, many online shoppers select a single payment method for all of their online purchases. PayPal, Google Checkout and Amazon Payments are the industry leaders.



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When a merchant chooses to accept one or more of these payment methods, they open the door to a new population of consumers. The same is true for the rising number of consumers who prefer to make purchases exclusively through Facebook. Those merchants who advertise on Facebook and accept Facebook Credits as a currency will be the first, if not only, choice for these shoppers.

### Promotional Opportunities

To take that thought one step further, many new payment technologies are intertwined with marketing platforms. Facebook and Twitter are obvious examples. So is the Google ad network, which will allow merchants who accept Google Checkout to have a checkout button on their ads. Time-limited discounts on Facebook Credits, Farm Cash and gift cards are often used to drive currency purchases as well. These types of offers combine both advertising messaging within the game or shopping environment and frictionless payment processing to drive impulsive purchases.

### Partnerships

As mentioned above, many alternative currencies have created a sub-economy among the providers and accepting merchants. For example, many airlines sell and exchange miles and points with a wide variety of partners, allowing the partners to then give those miles and points as promotions to their customers. Similar exchanges occur in social gaming.

### Access to New Channels

Just as alternative currencies allow customers to enter new channels that would otherwise not be available to them, merchants accepting alternative currencies and payment mechanisms are able to sell their products and services in channels where traditional currency transactions are simply not possible. As new channels emerge, alternative currencies will continue to follow suit.

## Conclusion

This article has only addressed a small number of the emerging currencies and payment platforms that exist in our world today. While each of these is still backed in one way or another by traditional cash money or credit, I argue that this is the same position our country was once in when paper money was backed by gold. Just as consumer trust in the dollar reached a point where backing by gold was no longer necessary, the day will likely come when currency is purely electronic. Consumers will no longer need to be able to exchange the total in their virtual wallet for actual cash to believe in its value. However, before that outcome can occur, an even smaller number of alternatives must pull away from the field and become not only mainstream but nearly universal. With so many fierce competitors in this field, that day may still be beyond the horizon. In the meantime, the variety of exciting alternatives is worth exploring.

Consumers should know that they have options and can choose the features, benefits and channels on which they transact. We each have a vote in what the currency of the future will be, and we cast that vote by using the technology that best fits our needs. Cash will still be around for the foreseeable future, but it will become increasingly inconvenient and rare as new and more efficient technologies continue to emerge.